

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

**Lincoln Township  
Arenac County, Michigan  
Financial Report  
With Supplemental Information  
March 31, 2007**

Lincoln Township

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# ROBERTSON & CARPENTER CPAs, P.C.

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Rodney C. Robertson, CPA

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## INDEPENDENT AUDITOR'S REPORT

Township Board  
Lincoln Township  
Arenac County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Lincoln Township as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lincoln Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Lincoln Township as of March 31, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on page 2 through page 7 and page 23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson & Carpenter CPAs, P.C.  
Certified Public Accountants  
September 13, 2007

## Management's Discussion and Analysis

As management of Lincoln Township (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2007.

### Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$246,752 (*net assets*). Of this amount, \$219,717 (*unrestricted net assets*) may be used to meet the Township's ongoing obligations.
- The Township's total net assets decreased by \$5,159.
- As of the close of the current fiscal year, the Township's general fund, the only governmental fund, reported an ending fund balance of \$219,717, a decrease of \$3,601 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$219,717 or 162% percent of total general fund expenditures.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *Government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the Government-wide financial statements present functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Township include general government, public safety and public works. The Township does not have any business-type activities as of and for the year ended March 31, 2007.

The Government-wide financial statements can be found on pages 8-9 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the Government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains one governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund.

The Township adopts an annual appropriated budget for its general fund. Budgetary comparison statements or schedules have been provided for the General Fund herein to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 10-11 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are *not* reflected in the Government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 13-14 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-22 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceeded its liabilities by \$246,752 at the close of the most recent fiscal year.

A portion of the Township's net assets (10%) reflects its investment in capital assets (e.g., infrastructure, land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending.

#### **Township's Net Assets**

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
Current and Other Assets	\$ 228,713	\$ 230,849
Capital Assets, Net	<u>27,035</u>	<u>28,593</u>
Total Assets	\$ 255,748	\$ 259,442
Current Liabilities	<u>8,996</u>	<u>7,531</u>
Total Liabilities	\$ 8,996	\$ 7,531
Net Assets:		
Invested in Capital Assets	27,035	28,593
Unrestricted	<u>219,717</u>	<u>223,318</u>
<b>Total Net Assets</b>	<b>\$ <u>246,752</u></b>	<b>\$ <u>251,911</u></b>

The Township's net assets decreased by \$5,159 during the current fiscal year. Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$5,159 or 2%, during year ended March 31, 2007.

### Township's Changes in Net Assets

	<b>Governmental Activities March 31, 2007</b>	<b>Governmental Activities March 31, 2006</b>
<b>Revenue:</b>		
Program Revenue:		
Charges for services	\$ 852	\$ 1,570
Operating Grants and Contributions	0	0
General Revenue:		
Property Taxes	29,635	27,744
State-Shared Revenues	92,085	93,309
Interest and Rent Earnings	6,669	4,041
Other	2,651	18,022
<b>Total Revenue</b>	<b>\$ 131,892</b>	<b>\$ 144,686</b>
<b>Expenses:</b>		
General Government	\$ 57,747	\$ 59,666
Public Safety	27,429	24,530
Public Works	51,875	42,082
<b>Total Expenses</b>	<b>\$ 137,051</b>	<b>\$ 126,278</b>
<b>Increase (Decrease) in Net Assets</b>	<b>(5,159)</b>	<b>18,408</b>
Net Assets, Beginning of Year	251,911	233,503
<b>Net Assets, End of Year</b>	<b>\$ 246,752</b>	<b>\$ 251,911</b>

**Governmental activities.** The Township's total governmental revenues decreased by \$12,794 from last fiscal year. This was primarily attributed to a sale of fixed assets of \$12,085 in the prior year. Expenses increased by \$10,773. The increase was primarily due to increased public works expenditures on roads of \$9,793 in the current year.

### Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.



As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$219,717, a decrease of \$3,601 in comparison with the prior year. The *unreserved fund balance*, which is available for spending at the Township's discretion, is \$219,717 (100% of this total amount).

The only governmental fund is the General Fund of the Township. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent 162% of total general fund expenditures.

The fund balance of the General Fund decreased by \$3,601 during the current fiscal year.

### **General Fund Budgetary Highlights**

The Township's budgets are prepared in accordance with Michigan Law. The only budgeted fund is the General Fund. The General Fund budget was not amended during the year. Township expenditures were \$ 8,953 more than budgeted. Fund balance decreased by \$ 3,601 during the fiscal year.

### **Capital Asset and Debt Administration**

**Capital assets.** The Township's investment in capital assets for its governmental activities as of March 31, 2007, amounted to \$27,035 (net of accumulated depreciation). Investment in capital assets includes infrastructure, land, buildings, vehicles and equipment. There were no additions during the fiscal year.

#### **Township's Capital Assets** (net of depreciation)

Infrastructure	\$	16,578	\$	17,523
Land and land improvements		4,500		4,500
Buildings		1,987		2,137
Furniture and Equipment		<u>3,970</u>		<u>4,433</u>
<b>Total</b>	<b>\$</b>	<b><u>27,035</u></b>	<b>\$</b>	<b><u>28,593</u></b>

Additional information on the Township's capital assets can be found in note 5 on page 20 of this report.

## **Factors Bearing on the Township's Future**

The following factors were considered in preparing the Township's budget for the 2007-2008 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in the economy. For 2006-2007, the Township received \$92,085 in state shared revenue, representing 70% of the revenues in the General Fund. The amounts of state shared revenues for future periods are uncertain and will affect the Township's budgets. Our budgets were prepared with these factors in mind and will be amended as required.

## **Requests for Information**

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Lincoln Township  
Clerk's Office  
Township Hall  
Standish, Michigan

Lincoln Township  
Statement of Net Assets  
March 31, 2007

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents (Note 3)	\$ 206,451
Due from other governments (Note 4)	22,249
Due from other funds (Note 4)	13
Capital assets-net (Note 5)	<u>27,035</u>
Total assets	<u>255,748</u>
 <b>Liabilities</b>	
Accounts payable	8,625
Accrued and other liabilities	<u>371</u>
Total liabilities	<u>8,996</u>
 <b>Net Assets</b>	
Invested in capital assets	27,035
Unrestricted	<u>219,717</u>
Total net assets	\$ <u><u>246,752</u></u>

See accompanying notes to financial statements.

Lincoln Township  
Statement of Activities  
Year ended March 31, 2007

Functions/Programs	Expenses	Program Revenues		Governmental
		Charges for	Operating	Activities
		Services	Grants	Net (Expense)
				Revenue and
				Changes in
				Net Assets
Governmental Activities				
General government	\$ 57,747	\$ -	\$ -	\$ (57,747)
Public safety	27,429	852	-	(26,577)
Public works	<u>51,875</u>	<u>-</u>	<u>-</u>	<u>(51,875)</u>
Total governmental activities	<u>\$ 137,051</u>	<u>\$ 852</u>	<u>\$ 0</u>	<u>\$ (136,199)</u>
General Revenues:				
Property taxes				29,635
State revenues				92,085
Interest and investment earnings				6,669
Other				<u>2,651</u>
Total general revenues				<u>131,040</u>
Change in Net Assets				(5,159)
Net assets - beginning of year				<u>251,911</u>
Net assets - end of year				<u>\$ 246,752</u>

See accompanying notes to financial statements.

Lincoln Township  
Governmental Funds  
Balance Sheet  
March 31, 2007

	General Fund
<b>Assets</b>	
Cash and investments	\$ 206,451
Due from other governments	22,249
Due from other funds	<u>13</u>
Total assets	<u>\$ 228,713</u>
<b>Liabilities</b>	
Accounts payable	\$ 8,625
Due to other governments	<u>371</u>
Total liabilities	<u>8,996</u>
<b>Fund balances</b>	
Unreserved:	
Designated for Township Hall	57,653
General Fund	<u>162,064</u>
Total fund balances	<u>219,717</u>
Total liabilities and fund balances	<u>\$ 228,713</u>
 <b>Fund Balances - Total Governmental Funds</b>	 \$ 219,717
 Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources, and are not reported in the funds.	
The cost of capital assets is	\$ 57,052
Accumulated depreciation is	<u>(30,017)</u>
	27,035
 <b>Net Assets of Governmental Activities</b>	 <u>\$ 246,752</u>

See accompanying notes to financial statements.

Lincoln Township  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Year ended March 31, 2007

	<u>General Fund</u>
<b>Revenues</b>	
Taxes and penalties	\$ 29,635
State revenues	92,085
Charges for services	852
Interest and rentals	6,669
Other	2,651
Total revenues	<u>131,892</u>
<b>Expenditures</b>	
Current:	
General government	57,134
Public safety	27,429
Public works	50,930
Total expenditures	<u>135,493</u>
<b>Net changes in fund balances</b>	(3,601)
<b>Fund balances</b> - Beginning of year	<u>223,318</u>
<b>Fund balances</b> - End of year	<u><u>\$ 219,717</u></u>

See accompanying notes to financial statements.

Lincoln Township  
Governmental Funds  
Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
Year ended March 31, 2007

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	(3,601)
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Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;  
in the statement of activities these costs are allocated  
over their estimated useful lives as depreciation.

Depreciation expense	\$	(1,558)	
Capital Outlay		<u>-</u>	<u>(1,558)</u>

<b>Change in Net Assets of Governmental Activities</b>	\$	<u><u>(5,159)</u></u>
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See accompanying notes to financial statements.

Lincoln Township  
Fiduciary Funds  
Statement of Net Assets  
March 31, 2007

	Trust Fund- Pension Fund	Agency Fund Type (Property Tax Collection Fund)
<b>Assets</b>		
Cash	\$ -	\$ 13
Investments - at fair value	<u>23,609</u>	<u>-</u>
Total assets	<u>23,609</u>	<u>\$ 13</u>
<b>Liabilities</b>		
Due to other funds	<u>-</u>	<u>13</u>
Total liabilities	<u>-</u>	<u>\$ 13</u>
<b>Net Assets</b> - Held in Trust for Pension Benefits	<u>\$ 23,609</u>	

See accompanying notes to financial statements.



Lincoln Township  
Fiduciary Funds  
Statement of Changes in Net Assets  
Year ended March 31, 2007

	Trust Fund- Pension Fund
<b>Additions</b>	
Contributions	
Employer	\$ 1,396
Employee	1,904
Investment earnings	<u>557</u>
Total Additions	3,857
 <b>Deductions</b>	
Benefits	
Administrative expenses	<u>100</u>
Total deductions	100
 <b>Net increase</b>	 3,757
 <b>Net Assets Held in Trust for Pension Benefits</b>	
Beginning of the year	<u>19,852</u>
End of the year	\$ <u><u>23,609</u></u>

See accompanying notes to financial statements.

Lincoln Township  
Notes to Financial Statements  
March 31, 2007

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Lincoln Township ("the Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Township:

**Reporting Entity**

The Township is governed by an elected five member Township Board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Township's reporting entity, and which organizations are legally separate, component units of the Township. Based on the application criteria, the Township does not contain any component units.

**Government-wide and Fund Financial Statements**

The Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities. The Township does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the Township.

The Township reports the following major governmental fund:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

Additionally, the Township reports the following funds:

The Pension Trust Fund accounts for the activity of the Township defined contribution retirement plan, which accumulates resources for pension benefit payments to qualified employees.

The Tax Collection Fund accounts for property taxes collected and disbursed to other taxing authorities by the Township as required by law.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided and (2) operating grants and contributions. General revenue includes all taxes.

**Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Lincoln Township  
Notes to Financial Statements  
March 31, 2007

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The taxpayers of the Township have their properties assessed as of December 31 and the related property taxes are levied and become a lien on December 1 for 100% of the taxes which are due February 28. The 2006 taxable value of the Township was \$22,310,165. The 2006 tax levy was .8838 mills for general operating purposes raising \$19,573 for general operating purposes.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$250 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Infrastructure assets acquired prior to implementation of GASB 34 are not included in the financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 years
Buildings and additions	50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20 years

**Compensated Absences** - There is no liability for compensated absences reported in the government-wide financial statements since no Township employees are provided with sick or vacation pay benefits.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Township has designated \$57,653 for future use for a Township hall.

Lincoln Township  
Notes to Financial Statements  
March 31, 2007

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Comparative Data/Reclassifications - Comparative data is not included in the Township's financial statements.

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state laws for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township adopt its budgets by April 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Townships to amend its budget during the year. There were no amendments to the budget during the fiscal year.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances are reappropriated in the next year.

**Note 2 - Stewardship, Compliance and Accountability**

**Excess of expenditures over appropriations in budgeted funds:**

The Township incurred expenditures in excess of amounts budgeted as follows:

<u>Fund and Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
Public safety	\$ 22,500	\$ 27,429	\$ 4,929
Public works	31,040	50,930	19,890

**Note 3 - Deposits and Investments**

At year-end, the Lincoln Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Township Total</u>
Cash and cash equivalents	\$ 206,451	\$ 13	\$ 206,464
Investments	-	23,609	23,609
Total	<u>\$ 206,451</u>	<u>\$ 23,622</u>	<u>\$ 230,073</u>

The breakdown between deposits and investments for the Township is as follows:

Deposits (checking, savings and CDs)	\$ 206,464
Investments	23,609
	<u>\$ 230,073</u>

Lincoln Township  
Notes to Financial Statements  
March 31, 2007

**Note 3 - Deposits and Investments (Continued)**

**Investment and deposit risk:**

**Interest rate risk**

In accordance with its investment policy, the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by investing operating funds primarily in shorter term securities and limiting the average maturity in accordance with the Township's cash requirements.

**Credit risk**

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRPs). The Township has no investments for which ratings are required.

**Custodial credit risk - deposits**

In the case of deposits, there is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. State law does not require and the Township does not have a policy for custodial credit risk. At March 31, 2007, \$47,600 of the Township's bank balances of \$206,554 was exposed to custodial credit risk because it was uninsured.

The Township Board is authorized to designate depositories for Townships funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

- a. Bonds, securities, and other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States with remaining maturities of two years or less.
- b. Certificates of deposit of a bank which is a member of the Federal Deposit Insurance Corporation.
- c. Commercial paper rated at the time of purchase within the two highest classifications by not less than two standard rating services.

The Township's deposits are in accordance with statutory authority.

**Note 4 - Receivables, Payables and Transfers**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	\$ 13	General Fund	\$ -
Fiduciary Funds	-	Fiduciary Funds	13
Total	\$ 13	Total	\$ 13
<u>Transfer In</u>		<u>Transfer Out</u>	
None	\$ 0	None	\$ 0

Lincoln Township  
Notes to Financial Statements  
March 31, 2007

**Note 4 - Receivables, Payables and Transfers Note (Continued)**

Receivables as of year-end for the Township's major fund and fiduciary funds in the aggregate, including applicable allowances of uncollectible accounts, are as follows:

Receivables:		General Fund
Intergovernmental	\$	<u>22,249</u>
	\$	<u><u>22,249</u></u>

**Note 5 - Capital Assets**

Capital assets activity of the Township's Governmental activities were as follows:

	Balance April 1, 2006	Additions	Deletions	Balance March 31, 2007
Capital assets not depreciated:				
Land	\$ 4,500	\$ -	\$ -	\$ 4,500
Capital assets being depreciated:				
Infrastructure	18,902	-	-	18,902
Buildings	27,000	-	-	27,000
Furniture & equipment	6,650	-	-	6,650
Subtotal	<u>57,052</u>	<u>-</u>	<u>-</u>	<u>57,052</u>
Accumulated Depreciation				
Infrastructure	1,379	945	-	2,324
Buildings	24,863	150	-	25,013
Machinery & Equipment	2,217	463	-	2,680
Subtotal	<u>28,459</u>	<u>1,558</u>	<u>-</u>	<u>30,017</u>
Net capital assets being depreciated	<u>28,593</u>	<u>(1,558)</u>	<u>-</u>	<u>27,035</u>
Governmental Activities				
Total Capital Assets net of Depreciation	\$ <u>28,593</u>	\$ <u>(1,558)</u>	\$ <u>0</u>	\$ <u>27,035</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 613
Public works	945
Total governmental activities	<u>\$ 1,558</u>

Lincoln Township  
Notes to Financial Statements  
March 31, 2007

**Note 6 - Risk Management**

Lincoln Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

**Note 7 - Pension Plan**

Lincoln Township has a defined contribution plan for board members, through John Hancock. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of these contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account.

The Township pension plan agreement specifies which Township positions are covered by the plan. Contributions made by a board member and the Township vest immediately. An board member that leaves the employment of the Township is entitled to his or her account balance consisting of the employee and Township contributions, as well as earnings in the account.

During the year, the Township's required and actual contributions amounted to \$1,396 which was 7.5% of its current year covered payroll plus fees. Employee voluntary contributions were \$1,904. Covered payroll was \$25,190. Total payroll was \$31,095.

Employer	\$ 1,396
Employee	1,904
Administration Fees	<u>100</u>
	<u>\$ 3,400</u>

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees. The plan held no securities of the Township or other related parties during the year or at the close of the fiscal year.



Lincoln Township  
Notes to Financial Statements  
March 31, 2007

**Note 8 - Joint Area Fire Board**

The Standish Area Fire Authority was organized January 1, 1998 under Public Act No. 57 of 1988 to provide fire protection services to Lincoln Township, Standish Township, and the City of Standish. The Authority is governed by a board of directors comprised of two members from each municipality appointed by the legislative board of each municipality.

Lincoln Township's financial support of the Standish Area Fire Authority is calculated as 1 mill applied to the taxable value of the Township. The Township's contribution for the 2006/2007 fiscal year was \$22,575.

The following financial information for the Standish Area Fire Authority as of June 30, 2006 is available at the Township office:

Total Assets	\$ 512,635
Total Liabilities	53,039
Total Equity	459,596
Total Revenue	143,284
Total Expenditures	124,227
Increase in Fund Balance	19,057

## **Required Supplemental Information**

Lincoln Township  
 Budgetary Comparison Schedule - General Fund  
 Year ended March 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Amended Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Fund Balance</b> - Beginning of year	\$ 208,045	\$ 208,045	\$ 223,318	\$ 15,273
<b>Resources (Inflows)</b>				
Taxes and fees	28,500	28,500	29,635	1,135
State revenues	92,000	92,000	92,085	85
Charges for services	1,200	1,200	852	(348)
Interest and rentals	4,540	4,540	6,669	2,129
Other	300	300	2,651	2,351
Amounts available for appropriation	<u>334,585</u>	<u>334,585</u>	<u>355,210</u>	<u>20,625</u>
<b>Charges to Appropriations (Outflows)</b>				
General government	73,000	73,000	57,134	(15,866)
Public safety	22,500	22,500	27,429	4,929
Public works	31,040	31,040	50,930	19,890
Total charges to appropriations	<u>126,540</u>	<u>126,540</u>	<u>135,493</u>	<u>8,953</u>
<b>Fund Balance</b> - end of year	\$ <u>208,045</u>	\$ <u>208,045</u>	\$ <u>219,717</u>	\$ <u>11,672</u>



# ROBERTSON & CARPENTER CPAs, P.C.

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Rodney C. Robertson, CPA

Robert J. Carpenter, CPA

September 13, 2007

Township Board  
Lincoln Township  
Arenac County, Michigan

In planning and performing our audit of the financial statements of the governmental activities and the major fund of Lincoln Township as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Lincoln Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township's financial statements that is more than inconsequential will not be prevented or detected by the Township's internal control. We consider the following deficiency to be a significant deficiency in internal control.

## **Lack of adequate controls to produce full-disclosure GAAP basis financial statements.**

*Requirement:* All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Township's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

*Condition:* The Township, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

*Cause:* This condition was caused by the Township's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time

and expense of obtaining the necessary training and expertise required for the Township to perform this task internally.

*Effect:* The result of this condition is that the Township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

*View of responsible officials:* The Township has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Township to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

This communication is intended solely for the information and use of management, the Township, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Robertson & Carpenter CPAs, P.C.  
Certified Public Accountants